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By the Numbers: The Fiscal Accountability of Canada's Senior Governments, 2015

Over the last decade, Canada's senior governments have spent $48 billion more than budget documents predicted. Improvements in financial information and parliamentary scrutiny could give legislators and taxpayers better control over public funds.

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The Study In Brief

Control over public money is fundamental to democratic government, and presents huge challenges to legislators and taxpayers. Getting the information needed to answer simple questions such as how planned spending in the upcoming year compares to actual results in the prior year can be hard, and ensuring that governments treat their budget targets seriously is a never-ending task.

This latest edition of the C.D. Howe Institute's annual report on the fiscal accountability of Canada's federal, provincial and territorial governments assesses the quality of financial information these governments present, and looks at their success or failure in achieving their budgetary goals over the past decade.

Its survey of the financial reports reveals some good news: more governments now prepare their budgets on the same basis as their end-of-year public accounts, making comparisons over time easier for their citizens. While these improvements mean that more governments earn high marks for their reporting, some jurisdictions still present numbers in which such key figures as total spending and total revenue are obscure. Inconsistent presentation of numbers to legislators, late reporting, and qualified audits are too common. A major aim of this report is to celebrate the relatively transparent reporting found in New Brunswick and Saskatchewan, and in Ontario and Ottawa, and encourage other jurisdictions to raise their game.

When it comes to the degree to which results match intentions, the survey also finds some good news. In the second half of the past decade, the spending and revenues reported by Canada's senior governments at the end of each fiscal year have tended to match the projections in the budget at the beginning of the year more closely than in the first half of the decade. That said, federal, provincial and territorial governments tend to overshoot their budget targets by large amounts. Over the decade, Canada's senior governments overshot their spending targets by some $48 billion in total. They also brought in far more revenue than anticipated in budgets, and while caution in forecasting can explain some of this overshoot, the survey finds a disturbing tendency for revenue and spending surprises, up or down, to occur together – more suggestive of opportunism than good fiscal management.

Improving control over public funds in Canada will require two things. Legislators and the public must demand more transparent, timely and accurate reporting of governments' fiscal plans and results. And legislators must use their powers over appropriation more effectively. Votes on budgets are votes of confidence that determine whether governments stand or fall. Only when legislators ensure that budget plans are meaningful do they hold governments accountable for their use of public funds.

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Accountability and transparency are watchwords for good governance in the early 21st century. And the bar is rising.

In businesses and in the not-for-profit sector, shareholders, donors and other interested parties are demanding more complete and meaningful information, and this pressure has produced important improvements in financial management and reporting. The same pressures are affecting the public sector, and for good reason. In developed democracies, governments typically tax and spend close to half of national income, and provide a wide range of services, from policing, health and education, through to income supports. Understanding how governments manage their budgets, and ensuring that taxpayers and citizens can control the use of public money through their elected representatives, are vital challenges.

This study focuses on the financial reporting and performance of Canada's senior governments: how much revenue our federal, provincial and territorial governments raise, how much they spend, and how these results compare with their budget targets.[1] It is not about value for money – not about whether governments spend too much or too little, or whether Canadians get goods and services of a an appropriate standard in return for the taxes they pay. Those are important questions, but our approach is a simpler and essential starting point: we ask whether each jurisdiction's budgets and financial reports let legislators and voters understand and influence their governments' fiscal footprints.

We begin by assessing the clarity and comparability of governments' financial reporting. Our perspective is that of an intelligent and motivated, but non-expert, reader of a government's principal financial documents: its beginning-of-year budgets and its end-of-year financial reports (the public accounts). We begin by asking what that person – who might be a legislator or a concerned citizen – would understand, from the presentation and layout of those documents, to be the key total revenue and spending numbers projected at the beginning of the year, and the total revenue and spending numbers reported at the end of the year. How readily would our reader be able to find and compare the relevant numbers?

If this reader were looking at the budgets and public accounts of the federal government, or the provinces of Ontario, New Brunswick and Saskatchewan, she would find the task relatively easy. Each of these jurisdictions displays the relevant numbers in its budgets and public accounts on the same accounting basis. In addition, related elements of financial reporting – tables that reconcile budget intentions to outcomes, a clean audit, and timely reporting – are relatively good in these jurisdictions.

We assign letter grades for the quality of these numbers, and the A-level scores these jurisdictions earn represent progress. A couple of decades ago,

The authors thank Aaron Jacobs for research assistance. The members of the C.D. Howe Institute's Fiscal and Tax Competitiveness Council, Alexandre Laurin, and a number of officials provided valuable comments on earlier drafts. We alone are responsible for the conclusions and for any remaining errors.

1 This *Commentary* updates previous work on Canadian governments' fiscal reporting and performance: see Busby and Robson (2008, 2009, 2010, 2011, 2013, 2014) and Adrian, Guillemette, and Robson (2007) for prior years' accountability rankings for senior governments. Dachis and Robson (2011, 2014) have undertaken a similar survey of fiscal reporting and performance in Canada's major municipalities.

no jurisdiction budgeted and reported on the same basis. Moreover, the improvements are continuing: Saskatchewan has very recently moved into the front rank, and among the territories, Yukon has significantly upgraded the quality of its financial reporting.

Unfortunately, however, most readers would have a tougher time with the financial statements of other governments. The accounting may not be consistent between the budget and the public accounts, and either or both of those documents may show multiple revenue and expense figures that would stump even experts. A principal aim of this survey is to encourage the governments that fall short of these reasonable standards of transparency to raise their games.

Having evaluated the quality of the financial presentations, this study then focuses on the numbers our busy reader would likely conclude are the definitive totals for revenue and spending – though we underline that in many jurisdictions, the numbers our hypothetical reader would conclude are the definitive ones would not be the numbers the relevant auditor would identify. We use these numbers to produce measures of how well each government's results match the spending and revenue goals established in their budgets.

Here, too, our survey reveals past problems, and grounds for optimism about the future. A major problem is that Canada's federal, provincial and territorial governments have tended to overshoot their budget targets. Over the past 10 years, they spent some $48 billion more than projected in their spring budgets, with the prairie provinces and the territories showing the biggest over-runs. Over the same period, actual revenues overshot budget projections by an even larger amount: $83 billion.

More encouragingly, comparing the overshoots during the first half of the decade to those during the second half shows improvement in most jurisdictions, and for the country on average, over the most recent five years. We do not know that improvements in the quality of reporting are related to improvements in the accuracy of budget projections. If the confluence of these two improvements is only a coincidence, at least it is a happy coincidence. If they are related, they give additional reason for Canadians to encourage further transparency and accountability in fiscal policy.

Measuring Fiscal Accountability

A key thrust behind the modern movement toward more accountability and transparency is the idea that when a person entrusts other parties to act on her behalf – as providers of services, as managers of wealth, as custodians of public funds, and in myriad other functions – she ought to be able, without inordinate effort or expertise, to judge whether her interests are being served. In fiscal policy, one requirement would be that she be able to make sense of the key numbers. At a minimum, she should be able to identify the total revenue and spending numbers in a government's principal financial documents, and use those numbers to compare results to intentions.

Background on the Financial Cycle

The principal financial documents that our idealized reader would consult come at opposite ends of the fiscal cycle. Ottawa, the provinces and territories all have fiscal years that run from April 1 to March 31. Legislatures typically vote budgets before the beginning of the fiscal year. The public accounts, which present the audited, actual results for revenues and spending, appear after the end of the fiscal year – typically in the summer or fall.

Governments produce other financial documents. Notably, for parliaments to permit government spending, a series of "estimates" requires formal votes in the legislature: typically "main estimates" arrive close to the time of the budget, and "supplementary estimates" at intervals later in the year. In addition, many governments produce interim fiscal reports, showing progress to date relative to budget plans, and in many cases updating projections for the year. While we

comment on these other sources of information in this survey, the budgets and the public accounts are uniquely important.

Budgets are the central statement of a government's fiscal priorities. As control of public funds is critical to parliamentary government, budget votes are votes of confidence, and failure triggers a change in government or an election. Votes on estimates matter too, but estimates receive nothing like the same scrutiny a budget does – indeed, as we discuss further below, their presentation often differs from the budget and the public accounts, so our idealized reader would have trouble comparing them to either document.

At the other end of the fiscal cycle, the public accounts are the definitive statement of the government's annual finances. Scrutinized by the relevant auditor, they are official declarations of what a government actually raised and spent over the course of the year. Ideally, the public accounts will be prepared according to the general standards set by the Public Sector Accounting Board (PSAB), which anticipate a consolidated statement that takes account of all revenue and expenditure – including the amortization of capital investments – to arrive at a bottom line that represents the change in net worth of the entity over the course of a year.

Comparing the budget totals to the public accounts actual totals should be straightforward. If it is, answering such basic questions as how close last year's results were to last year's plans, or what kinds of increases or decreases this year's budget implies relative to last year's results, is easy. If it is not, answering even these basic questions is very hard – and for our idealized reader, practically impossible.

Grading the Quality of Financial Reporting

So – can an intelligent and motivated, but non-expert, Canadian find and compare the relevant numbers prepared by Canada's senior governments? It depends. In some jurisdictions, the relevant numbers appear prominently and early in the documents and are accessible in a matter of minutes. In others, finding the relevant numbers requires time-consuming exploration of dozens of pages, tables and footnotes. In yet others, the relevant numbers do not appear at all.

Our approach is to locate the spending and revenue totals displayed prominently in budgets and in public accounts – the ones our reader might reasonably assume are the "correct" numbers – and ask several questions about them:

- Does the budget present one prominent set of revenue, spending and balance figures?
- For their part, do the public accounts present, early and prominently, headline revenue, spending and balance figures calculated in accordance with PSAB standards?
- Do the public accounts present headline revenue and expenditure figures that correspond to the most prominent figures in the budget?
- Do the public accounts prominently explain variances between the results and the budget?

Our assessments using these criteria appear in Table1. Other criteria also matter. We consider the following additional elements of financial presentations:

- Are the estimates on the same accounting basis as the budget and public accounts? Can reader readily reconcile them to the budget?
- Does the government publish in-year updates showing deviations from budget plans?
- Did the relevant auditor give the public accounts a clean opinion?
- How soon after the end of the fiscal year did the public accounts pass the audit?[2]

2 Ideally, we would look at the date when the public accounts are tabled, but historical data on the date of tabling are not readily available. Some jurisdictions have legislation on when public accounts must be documented, which is often before the end of October.

Table 1: Evaluating the Reporting Practices and Fiscal Documents in Canada

	Presentation				Reporting Schedule and Audit				
Jurisdiction	Does Budget Present One Prominent Set of Revenue, Spending and Balance Figures?	Do Public Accounts (Volume I) Report Headline PSAB-Consistent Figures for Revenue, Spending and Balance?	Do Public Accounts (Volume I) Present Headline Revenue and Spending Figures that Match The Earliest and Most Prominent Figures in Budget?	Do the Public Accounts Prominently Display Comparisons of Actual Results with Budget Plans?	Are the estimates on the same accounting basis as the budget and public accounts? Can reader readily reconcile them to the budget?	Does Government Provide Interim Reports on Progress Toward Budget Targets? (monthly[M], half-year[H])	Number of Auditor reservations over 10 years (and most recent year) - Comments	Date of Most Recent Audit Approval	Overall Grade on Financial Reporting Presentation
Federal	Yes: But figures appear late in document	Yes	Yes	Yes: Tables and figures, supported by text, at the beginning of document	No: Estimates not consistent with budget presentation and not reconciled**	Yes (M,H)	0 (0) – No major reservations	4-Sep-14	A-
NL*	No: Presents multiple revenues and expenses figures	Yes	No: Public Accounts present revised budget estimates	Yes: Some reconciliation explanations exist but they are not supported by tables or figures	No: Estimates not consistent with budget presentation and partially reconciled	Yes (H)	0 (0) – No major reservations	10-Oct-14	D
PE*	No: Presents multiple budget balance figures (surplus before interest charges and amortization, in addition to consolidated deficit)	Yes	No: Public Accounts present revised budget estimates	No	Yes: Estimates consistent with budget presentation**	Yes (H)	0 (0) – No major reservations	30-Jan-15	D
NS*	Yes: But prominent budget balance figures add "consolidation and accounting adjustments for government units"	Yes	No: Public Accounts present revised budget estimates	Yes: But reconciliation tables compare revised budget estimates to actual results	Yes: Estimates consistent with budget presentation	Yes (H)	1 (0) – Latest objection in 2011/12, when auditor was unable to provide an opinion on uncertainty related to accumulated sick leave benefits.	1-Apr-14	B-

* 2014/15 budget figures come from: NL – Budget Speech, Statement of Operations; PE – Budget Summary in Estimates; Expenditures include interest and amortization costs; NS – Budget Summary in Budget Assumptions and Schedules.

** Some provinces and territories produce estimates that are consistent with budget presentations yet we, as column 2 of this table points out, take issue with the original budget presentations. Federal government does produce accrual reconciliation of estimates in Departmental Reports on Plans and Priorities and in the year-end and public accounts.

Table 1: Continued

	Presentation				Reporting Schedule and Audit				
Jurisdiction	Does Budget Present One Prominent Set of Revenue, Spending and Balance Figures?	Do Public Accounts (Volume I) Report Headline PSAB-Consistent Figures for Revenue, Spending and Balance?	Do Public Accounts (Volume I) Present Headline Revenue and Spending Figures that Match The Earliest and Most Prominent Figures in Budget?	Do the Public Accounts Prominently Display Comparisons of Actual Results with Budget Plans?	Are the estimates on the same accounting basis as the budget and public accounts? Can reader readily reconcile them to the budget?	Does Government Provide Interim Reports on Progress Toward Budget Targets? (monthly[M], half-year[H])	Number of Auditor reservations over 10 years (and most recent year) - Comments	Date of Most Recent Audit Approval	Overall Grade on Financial Reporting Presentation
NB	Yes	Yes	Yes	Yes: Tables and figures, supported by text, at the beginning of document	Yes: Estimates consistent with budget presentation	Yes (H)	0 (0) – No major reservations	17-Jul-14	A
QC*	No: Presents multiple revenue, spending and balance figures	Yes	No: Only comparable to consolidated budget figures	Yes: Tables and figures supported by text, at the beginning of the document	Yes: But estimates not consistent with budget presentation but not reconciled	Yes (M,H)	7 (1) – Recent objection relate to recording of government transfers supporting capital investments and other debt-financed expenditures.	16-Oct-14	D+
ON	Yes: But figures appear late in document	Yes	Yes	Yes: Tables and figures, supported by text, at the beginning of document	Yes: Estimates not consistent with budget presentation but are reconciled	Yes (Q)	0 (0) – No major reservations	19-Aug-14	A
MB*	No: Presents multiple revenue, spending and balance figures	Yes	Yes	No: While reconciliation tables explain deviations from budget, they come late in document	Yes; Estimates consistent with budget presentation**	Yes (Q)	2 (0) – Most recent reservation occurred in 2006/07.	25-Sep-14	C+

* For clarification, 2014/15 budget figures come from: QC – Detailed Consolidated Financial Framework in Budget Plan; MB – Summary budget figures.

** Some provinces and territories produce estimates that are consistent with budget presentations yet we, as column 2 of this table points out, take issue with the original budget presentations. Federal government does produce accrual reconciliation of estimates in Departmental Reports on Plans and Priorities and in the year-end and public accounts.

Table 1: Continued

	Presentation				Reporting Schedule and Audit				
Jurisdiction	Does Budget Present One Prominent Set of Revenue, Spending and Balance Figures?	Do Public Accounts (Volume I) Report Headline PSAB-Consistent Figures for Revenue, Spending and Balance?	Do Public Accounts (Volume I) Present Headline Revenue and Spending Figures that Match The Earliest and Most Prominent Figures in Budget?	Do the Public Accounts Prominently Display Comparisons of Actual Results with Budget Plans?	Are the estimates on the same accounting basis as the budget and public accounts? Can reader readily reconcile them to the budget?	Does Government Provide Interim Reports on Progress Toward Budget Targets? (monthly[M], half-year[H])	Number of Auditor reservations over 10 years (and most recent year) - Comments	Date of Most Recent Audit Approval	Overall Grade on Financial Reporting Presentation
SK	Yes: But figures appear late in document	Yes	Yes	Yes: Tables and figures supported by text, at the beginning of the document	Yes: Estimates not consistent with budget presentation and not reconciled	Yes (Q)	25 (0) – Past auditor reservations were based on the audit of the General Revenue Fund but not the consolidated financial statements.	12-Jun-14	A
AB*	No: Presents multiple revenue, spending and balance figures	No: present multiple balance figures	Yes	Yes: Tables and figures supported by text, at the beginning of the document	Yes: Estimates not consistent with budget presentation and not reconciled	Yes (Q)	0 (0) – No major reservations	18-Jun-14	C
BC	Yes	Yes	No: Net earnings from crown corps are presented as separate line item	Yes: But explanations for variances are limited	Yes: Estimates consistent with budget presentation and reconciled	Yes (Q)	21 (2) – Auditor cautions numerous instances of departures from Canadian Generally Accepted Accounting Principles.	4-Aug-14	B-

* For clarification, 2014/15 budget figures come from: AB – Operational Plan Budget.

Table 1: Continued

	Presentation				Reporting Schedule and Audit				
Jurisdiction	Does Budget Present One Prominent Set of Revenue, Spending and Balance Figures?	Do Public Accounts (Volume I) Report Headline PSAB-Consistent Figures for Revenue, Spending and Balance?	Do Public Accounts (Volume I) Present Headline Revenue and Spending Figures that Match The Earliest and Most Prominent Figures in Budget?	Do the Public Accounts Prominently Display Comparisons of Actual Results with Budget Plans?	Are the estimates on the same accounting basis as the budget and public accounts? Can reader readily reconcile them to the budget?	Does Government Provide Interim Reports on Progress Toward Budget Targets? (monthly[M], half-year[H])	Number of Auditor reservations over 10 years (and most recent year) - Comments	Date of Most Recent Audit Approval	Overall Grade on Financial Reporting Presentation
NT*	No: Presents multiple spending and balance figures	Yes	No: Comparable budget figures are in non-audited, non-consolidated statements	Yes: But explanations are limited	Yes: Estimates consistent with budget presentation**	No	0 (0) – No major reservations	17-Oct-14	D+
YK*	No: Financial Summary shows both consolidated and non-consolidated figures	Yes	Yes	Yes: But a separate document provides limited explanation of variations	Yes: Estimates consistent with budget presentation and reconciled**	No	0 (0) – No major reservations	15-Oct-14	C+
NU*	No: Presents multiple revenue, spending and balance figures	Yes	No	No	Yes: Estimates consistent with budget presentation and reconciled for public accounts**	No	9 (0) – Past Public Accounts audits have shown that the Government of Nunavut struggles to table its consolidated financial accounts on time.	30-Oct-14	E

* For clarification, 2014/15 budget figures come from: NT – Budget Address and Papers, Medium-term outlook; YK – Consolidated summary; NU – Fiscal and Economic Indicators, Main estimates basis.

** Some provinces and territories produce estimates that are consistent with budget presentations yet we, as column 2 of this table points out, take issue with the original budget presentations. Federal government does produce accrual reconciliation of estimates in Departmental Reports on Plans and Priorities and in the year-end and public accounts.

Source: This table is compiled using 2014/15 budget documents and 2013/14 Public Accounts.

The quality and presentation of the headline revenue and spending figures in the principal financial documents are critical to the letter grades in Table 1. If a government does not meet at least two of the first four criteria, our motivated but non-expert reader may be stumped at the start, precluding a grade higher than C. With respect to those first four criteria, we dock each jurisdiction a letter grade for each failure to meet a criterion, and a partial grade when a criterion is not a clear "yes" or "no." For the additional criteria, we deduct partial grades on a relative scale: when the estimates do not use accounting consistent with budget and pubic accounts, when interim financial reports are absent, when the most recent year's audit was not clean, and when a jurisdiction's audit approval occurred after the end of August.[3]

The highest marks for presentation go to Ontario, New Brunswick, Saskatchewan and the federal government. Although the location of the numbers often leaves something to be desired – the relevant figures are more than 200 pages into the federal and Ontario budgets! – our non-expert reader would be able to identify comparable and PSAB-consistent headline revenue and spending numbers in their budgets and public accounts. Ontario, New Brunswick and Saskatchewan earn As, while the federal government earns an A-minus, because its main estimates use different accounting. Only Saskatchewan publishes its audited results before mid-year, but these four jurisdictions all include informative reconciliations with budgets in their results. They also publish interim results on the same accounting basis as the main documents, and have clean audits.

Ottawa and Ontario have long stood out for relatively good financial presentations. This year, New Brunswick and Saskatchewan join the top tier, in New Brunswick's case because of improvements in the presentation of the key numbers in its public accounts, and in Saskatchewan's case because both its headline budget and public accounts are now on a PSAB-consistent basis.

In the second rank are British Columbia and Nova Scotia, both scoring B-. British Columbia has scored relatively well in the past, but the problems most readers would have in reconciling its public accounts numbers with the budget numbers prevent its getting an A. Next is Manitoba and Yukon, each with a C+. Yukon's standing in this table is dramatically better than in the past: it used to present a budget inconsistent with its public accounts, but has now adopted a consistent presentation for headline figures in the two documents, making it the one territory where our idealized reader would more readily be able to make sense of the numbers. To get to the top rank, Yukon would need to drop from its budget a second set of numbers that are on a different accounting basis, and present only one set of revenue and spending figures.

At the opposite end of the quality-of-reporting scale, Nunavut earns a grade of E, while Prince Edward Island earns a D- and the Northwest Territories and Quebec earn a grade at D+. Although PSAB-consistent public accounts save the Northwest Territories from getting outright failing grades, its budgets would bewilder our idealized reader with multiple presentations of revenue and spending figures that no non-expert could possibly reconcile with the headline figures in their public accounts.

3 We note that some governments whose financial reports did not change from those we surveyed in last year's version of this report nevertheless get lower grades this year. Two reasons account for this apparently unfair result. First, this is the first year in which we have included the estimates in our grading system – which, for example, hurt the federal government's grade. Second, as some more egregious deviations from good practice have become rarer, attention shifts naturally to the remaining problems.

In closing our comments on the quality of presentations, we repeat that the trend for a number of years has been positive. Twenty years ago, every jurisdiction would have failed by these criteria; the fact that we note more improvements than deteriorations in the most recent presentations is, happily, the typical experience over time.

One result in our table is a deterioration from previous years: in 2013, Alberta replaced PSAB-consistent headline numbers for revenue and spending in its budget with a confusing array of "operating," "saving" and "capital" accounts. Happily, at the time of writing, Alberta's tabled 2015 budget used PSAB-consistent numbers that should be reconcilable with the province's public accounts for that year, so we look forward to giving Alberta a one or two letter grade bump in future editions of this report. We also note that Quebec's 2015 budget represents a step forward: it prominently displays numbers consistent with its public accounts, though unfortunately alongside a second bottom line that would confuse a non-expert reader.

How Much Do Budget Votes Actually Mean? Targets versus Results

Comparing budgets to results is not straightforward because, as just elaborated, not all these jurisdictions currently present comparable numbers in their budgets and their financial reports, and because even some that do so now did not in the past. To produce a scorecard measuring results against targets, we impose on our non-expert reader slightly, asking her to do a calculation that should not be necessary.

If all the budget and public accounts numbers of every jurisdiction were comparable, the comparison of results to intentions would be simple. We would look at the dollar amounts – for spending or for revenue as the case may be – and calculate a percent difference between them (using a percent difference rather than comparing dollar differences allows us to compare performance among jurisdictions of different sizes). When a jurisdiction's budget presents a number on a different basis than its public accounts – and especially if the budget presents more than one number, as when it shows separate operating and capital accounts, for example – calculating the difference between the dollar amounts in the budget and the public accounts will not produce a meaningful comparison. What looks like an under- or overshoot may simply reflect differences in accounting between the two documents.

Instead, then, we start by calculating two sets of percent changes in revenue and in spending – one from the figures presented in budgets, and the other from the figures in the public accounts. More specifically, we calculate the percent changes in revenue and spending relative to the prior year's figures as they are presented in each budget.[4] Likewise, we calculate annual percent changes in revenue and spending as they appear in each public-accounts document. The differences between the percent-change figures in the two documents are not a perfect measure (see Box 1), but they help produce a more meaningful comparison of results to targets notwithstanding the differences in accounting in many jurisdictions.

Spending

We can now proceed to a survey of how well Canada's senior governments have hit their budget targets over the past decade. Table 2 shows the key figures. The projected changes in spending for the year in each government's spring budget appear in the top panel (the final row at the bottom of the

4 In cases where the document does not provide a total, as when operating and capital appear separately, for example, we add the components.

top panel also shows the 2014/15 year's budget projections, for reference). The actual changes in spending for the year reported in each government's public accounts appear in the middle panel. And the differences between them appear in the bottom panel. We summarize the results over the decade in each jurisdiction, in Table 3, using two measures:

- Bias: the average difference between projected and actual changes. This is the arithmetic mean of the differences for each jurisdiction shown in the bottom panel of Table 2. It answers the question whether governments overshot or undershot their targets on average over the decade.
- Accuracy: the root average square of the differences in the bottom panel of Table 2. Because over- and undershoots cancel each other in the bias calculation, a series of large misses could have the same bias score as a series of small ones. The accuracy measure weighs the larger misses more heavily and sums them without regard to sign – a useful summary of how close governments are to their targets, regardless of whether they overshot or undershot.[5]

On the key question of overshooting versus undershooting, the bias measure delivers a clear verdict: over the decade, Canada's senior governments tended to overshoot their projected spending. The average annual overshoot of 2.3 percentage points was not small. Across the country, it cumulated to a total of $48 billion of unanticipated spending over the decade. To provide a sense of how each jurisdiction's total unanticipated spending over the decade compares to its current budget, the final column of Table 3 scales each cumulative variance to projected 2013/14 spending. If the government of Alberta had hit its annual targets over the past decade, for example, spending in the current fiscal year could have been one-third smaller.

As for which jurisdiction did best, and which worst, Ottawa's average spending overshoot of 0.3 percent gives it the best – that is, the smallest – bias score among the 14 governments, with Nova Scotia coming second, and Ontario third. Quebec, Prince Edward Island, New Brunswick and British Columbia recorded average overshoots in a range between 1 and 2 percent. Alberta and Saskatchewan had the largest overshoots – 4.2 and 4.4 percentage points respectively – among the provinces, while Yukon and Nunavut – with average overshoots of 5.3 and 7.8 percentage points respectively – had the worst records of all.

Scoring by accuracy tells a slightly different story. Prince Edward Island has the best – which again means the smallest – root average square deviation: 1.8 percentage points. Nova Scotia, Quebec, Ontario, New Brunswick and British Columbia also show respectable accuracy scores. Alberta, Newfoundland and Labrador, and Saskatchewan were the least accurate provinces over the period, and Yukon and Nunavut's budget projections were the worst guides to results among all jurisdictions.

Revenue

We give spending a higher profile than revenue in this review because it is more straightforwardly under government control. Post-budget changes in tax rates, for example, are rare, so ups and downs in revenue relative to plan are likelier to result from other events, such as economic cycles. A review of projected and reported revenue changes nevertheless yields some interesting observations.

Table 4 presents the revenue changes projected in governments' spring budgets over the past 10 years. In similar fashion to Table 2's report for spending, it shows projected (budget) changes in revenue in its top panel (along with fiscal year 2014/15 projections, for reference), reported (public

5 A square root of a square number is always positive; for example, $\sqrt{(-2\times-2)} = 2$. We sum the root squares of the entries for each jurisdiction and take the average, which is the root average square.

Box 1: Potential Objections to Percent-Change Comparisons of Budgets and Public Accounts

Our use of percent-change measures of revenue and spending to compare plans to results calculated from budgets and public accounts documents, respectively, has its flaws. We use it, noting that it imposes an unreasonable burden on our idealized reader, because we faced a choice between two evils.

In our view, the greater evil would be to compare budgets with public accounts that are on different accounting bases. Doing so would mean treating differences in dollar amounts that reflected items included, excluded, or expensed differently as over- or undershoots. When budgets are on a cash basis and public accounts are on an accrual basis, capital items alone can make dollar amounts very different, which would result in spurious measures of spending over- or under-shooting.

While we think the percent-change approach is a lesser evil, we acknowledge that it is not good. In addition to taking our non-expert reader beyond what should be a simple comparison of two dollar amounts, this approach to comparing over- and undershoots can create spurious over- and undershoots of its own.

Imagine, for example, that a government that uses consistent accounting in its budgets and financial reports presents a budget with projections that turn out to be spot on in dollar terms, but also contains preliminary figures for the previous fiscal year that turn out to be different from the final figures that later appear in its public accounts. In that case, even though the dollar amounts were right, our approach would show a discrepancy between the percent change calculated from the budget numbers and the change calculated from the public accounts. While this problem could make governments appear less accurate than they were in reality, in a situation where governments have tended to overshoot their budget targets, it is at least as likely to flatter them. That is because the preliminary figures for the previous year will more often than not turn out to be too low – meaning that the projected percent increases will tend to be "too large", which means in turn that the actual (even larger) over-runs will not look as bad as they should. So while we acknowledge this potential drawback, we do not think it seriously distorts the conclusions about relative performance in this study.

accounts) revenue changes in its middle panel, and the differences between them in its bottom panel. Table 5 summarizes figures in the bottom panel for the decade, using the same measures just discussed for spending: bias is the average difference between projected and actual changes; accuracy weighs larger misses more heavily and sums without regard to sign.

Positive revenue surprises are the general rule over the decade: the budgets of Canada's senior governments tended to predict less revenue than they actually collected. The average annual upside surprise across the country over the decade was 3.3 percent – another large figure, cumulating to a remarkable $83 billion nationally.

Some tendency for revenue to exceed projections is understandable. Governments typically include prudence margins in their forecasts. But such a large bias means that governments' tax take over the decade was much higher than legislators thought they were authorizing when they voted on budgets.

Table 2: Budgeted and Actual Expenditures, 2004/05-2014/15

Budget Spending Change (*percent*)

	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	NT	YK	NU
2004/05	2.3	0.4	-3.6	4.9	2.3	3.1	6.9	1.1	0.9	2.9	-2.6	2.7	5.1	-6.5
2005/06	1.9	5.5	1.4	4.2	3.2	3.3	4.2	3.5	1.1	5.7	4.7	1.5	5.0	-2.3
2006/07	5.0	3.7	2.6	6.3	1.7	4.1	2.1	3.4	0.1	4.0	3.7	0.8	-3.1	2.6
2007/08	4.6	8.8	8.0	5.1	2.9	3.9	2.6	5.8	1.6	11.7	3.9	4.7	-0.6	2.8
2008/09	2.3	11.1	6.4	2.5	2.7	3.6	0.2	3.3	4.6	9.7	1.1	-1.5	-0.9	4.0
2009/10	8.9	12.2	9.2	6.7	5.9	3.3	11.9	1.8	-0.9	-1.8	4.9	1.0	4.4	1.3
2010/11	4.8	14.4	0.8	0.4	1.6	3.9	7.0	1.6	0.1	4.2	2.3	5.6	-0.8	-7.5
2011/12	3.6	11.8	1.3	6.2	-1.6	3.5	1.0	2.3	-2.5	0.5	2.2	2.9	-3.4	-2.5
2012/13	1.2	2.1	1.0	3.7	1.3	3.0	1.4	-3.9	1.6	3.3	-1.2	0.8	4.1	-7.8
2013/14	0.9	1.9	1.9	-0.9	2.5	2.6	2.9	3.1	1.4	-1.1	0.8	1.8	2.0	-0.5
2014/15	-0.5	3.3	0.8	1.1	1.9	1.9	2.7	1.5	1.5	-4.5	1.7	7.2	-1.6	-7.9

Actual Spending Change (*percent*)

	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	NT	YK	NU
2004/05	10.9	-3.1	0.3	6.6	2.1	4.8	7.5	2.6	3.8	11.2	1.5	5.4	11.6	3.0
2005/06	-0.7	7.7	1.7	6.2	5.9	4.3	5.7	7.3	9.3	11.8	7.2	7.0	1.8	8.8
2006/07	6.3	0.2	3.2	6.2	5.3	5.4	5.0	5.4	7.4	9.1	4.8	4.1	8.0	5.4
2007/08	4.8	6.3	8.1	8.9	7.4	5.9	9.5	8.8	3.9	20.4	7.3	10.6	7.4	7.5
2008/09	2.6	9.8	7.9	3.8	6.4	4.0	0.4	4.2	20.6	7.8	3.5	4.6	6.6	11.0
2009/10	14.8	16.7	11.3	3.7	5.8	9.9	11.3	4.4	-2.5	-1.0	2.8	2.9	10.3	4.1
2010/11	-1.4	3.5	1.1	-1.8	4.6	4.6	4.9	5.1	8.6	2.7	2.3	2.8	5.6	3.3
2011/12	0.4	3.2	3.5	6.3	-1.6	3.7	1.3	10.7	0.9	5.2	6.6	3.3	2.3	6.9
2012/13	0.1	-1.7	0.3	3.8	3.0	2.7	-0.1	-2.2	3.1	4.7	-1.0	5.9	5.4	5.7
2013/14	0.6	2.3	3.6	2.9	-0.4	5.1	3.1	4.0	-3.2	9.1	0.4	4.5	6.2	5.6

Difference (*percentage points*)

	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	NT	YK	NU
2004/05	8.6	-3.6	3.9	1.6	-0.2	1.7	0.6	1.5	2.9	8.3	4.1	2.7	6.4	9.5
2005/06	-2.6	2.2	0.3	2.1	2.8	0.9	1.5	3.8	8.1	6.1	2.5	5.4	-3.3	11.1
2006/07	1.3	-3.5	0.6	0.0	3.7	1.3	2.9	2.0	7.3	5.1	1.1	3.2	11.1	2.8
2007/08	0.2	-2.5	0.1	3.9	4.5	1.9	6.9	3.0	2.3	8.7	3.4	5.9	7.9	4.7
2008/09	0.3	-1.2	1.5	1.3	3.7	0.4	0.2	0.9	16.0	-1.9	2.4	6.1	7.5	7.1
2009/10	5.9	4.4	2.2	-3.0	-0.1	6.6	-0.5	2.5	-1.5	0.9	-2.1	1.8	5.8	2.9
2010/11	-6.1	-10.9	0.3	-2.2	3.1	0.7	-2.1	3.5	8.5	-1.5	0.0	-2.8	6.5	10.9
2011/12	-3.2	-8.6	2.3	0.1	0.0	0.2	0.3	8.4	3.4	4.7	4.4	0.4	5.7	9.4
2012/13	-1.1	-3.8	-0.7	0.2	1.7	-0.3	-1.6	1.7	1.5	1.4	0.2	5.2	1.2	13.5
2013/14	-0.2	0.4	1.8	3.8	-2.9	2.5	0.2	0.9	-4.6	10.2	-0.4	2.7	4.2	6.2

Sources: Federal/Provincial/Territorial Budget and Public Accounts documents; authors' calculations.

Table 3: Bias and Accuracy in Budget Forecasts of Spending, 2004/05 to 2013/14

	Bias		Accuracy			Ratio: Total Overrun to 2013/14 Expenditures
	Mean Error (*percent*)	Rank	Root Mean Square Error (*percent*)	Rank	Total Overrun ($M)	
Federal	0.3	1	4.1	9	86	0
Newfoundland and Labrador	**-2.7**	8	5.2	10	-1,529	-20
Prince Edward Island	1.2	5	1.8	1	175	11
Nova Scotia	0.8	2	2.3	2	928	10
New Brunswick	**1.6**	7	2.7	6	1,024	12
Quebec	1.2	4	2.5	3	13,957	19
Ontario	0.8	3	2.6	5	6,362	5
Manitoba	**2.8**	9	3.5	7	3,251	22
Saskatchewan	**4.4**	12	7.0	13	3,502	30
Alberta	**4.2**	11	5.9	11	12,988	34
British Columbia	**1.5**	6	2.6	4	5,219	12
Northwest Territories	**3.1**	10	4.1	8	362	24
Yukon	**5.3**	13	6.5	12	430	38
Nunavut	**7.8**	14	8.5	14	997	68

Note: Bias results in bold font represent a statistically significant result at a 5 percent confidence level.

Sources: Sources: Federal/Provincial/Territorial Budget and Public Accounts documents; authors' calculations.

Who was best, and who worst? Ontario's revenue bias was negligible, and the federal government's bias was also quite small – less than one percent annually. The Maritime provinces also had relatively small biases, close to one percent. Not surprisingly, provinces that are more dependent on natural resource revenues – which thanks to buoyant prices tended to surprise on the upside over the decade – had sizeable positive revenue biases: Saskatchewan, Newfoundland and Labrador, and Alberta all scored in the teens.

As for accuracy in revenue projections, Ontario's standard deviation of 3.5 percentage points puts it in the middle of the pack, suggesting that its relatively small bias score owes something to luck. Predictably, the natural-resource-dependent jurisdictions that are more affected by commodity-price swings – Saskatchewan, Newfoundland and Labrador, and Alberta – also had low accuracy scores. Ottawa's revenue forecasts were the most accurate, with a root average square deviation over the decade of only 2.2 percentage points.

Are Revenue Surprises Associated with Spending Surprises?

While revenue may be less subject to government control than spending, considering over- and

Table 4: Budgeted and Actual Revenues, 2004/05-2014/15

Budget Revenue Change (*percent*)

	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	NT	YK	NU
2004/05	3.4	-3.8	3.1	4.2	4.6	3.1	14.8	4.0	1.8	-9.4	3.2	6.9	2.1	2.7
2005/06	2.3	3.5	3.1	4.4	2.8	3.3	5.9	-0.3	-9.2	-4.9	1.1	1.9	5.0	5.4
2006/07	2.8	2.3	3.1	5.1	0.1	4.4	2.1	3.4	-3.5	-6.3	-0.3	2.0	1.1	2.5
2007/08	1.9	12.2	8.0	5.8	2.8	1.2	2.6	5.8	-6.2	-4.7	-1.7	4.3	-3.3	2.9
2008/09	-1.1	-3.4	6.8	2.3	2.7	0.1	0.4	1.3	-0.3	2.2	-2.3	-4.5	1.0	4.5
2009/10	-4.9	-29.5	6.7	-1.0	-0.6	-0.4	2.7	-0.4	-12.4	-11.1	-1.9	3.4	5.3	5.6
2010/11	8.0	5.6	3.0	3.7	1.8	2.9	10.9	1.7	-0.8	1.3	5.8	5.0	7.9	5.9
2011/12	5.7	-1.1	2.1	-3.1	2.1	4.8	2.2	2.0	-1.8	4.7	3.6	3.0	5.6	7.0
2012/13	2.8	-10.9	1.3	4.3	5.2	5.9	2.7	0.3	1.9	4.6	2.8	9.5	7.3	8.0
2013/14	3.8	0.1	2.8	3.3	1.8	5.0	2.3	3.0	1.9	1.4	4.6	2.5	2.4	4.8
2014/15	4.7	0.5	1.6	3.7	4.3	2.9	2.8	1.1	-2.2	-1.5	1.9	10.8	3.7	4.0

Actual Revenue Change (*percent*)

	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	NT	YK	NU
2004/05	6.6	6.3	9.3	8.7	9.8	4.3	13.8	11.5	18.8	13.3	14.4	12.4	12.4	9.7
2005/06	4.8	23.9	4.8	5.6	5.7	5.5	8.2	2.3	5.5	21.4	7.7	11.3	9.8	12.5
2006/07	6.2	-0.6	5.2	5.3	5.2	8.6	7.3	6.0	5.2	7.4	7.0	8.0	5.6	17.1
2007/08	2.7	29.3	5.7	11.6	4.8	5.2	7.4	9.2	13.9	0.0	3.4	11.9	2.2	-5.1
2008/09	-3.8	20.9	5.7	-0.7	2.1	-0.3	-6.8	3.4	24.9	-6.2	-3.7	-5.3	5.4	7.8
2009/10	-6.2	-15.5	8.4	0.8	-1.7	7.6	-1.2	-0.9	-16.7	0.2	-2.0	3.0	7.3	3.4
2010/11	8.5	11.5	2.6	7.2	6.4	5.5	11.3	4.4	7.7	-1.8	6.6	1.9	7.7	6.4
2011/12	3.5	6.5	2.7	-2.5	3.6	4.6	2.4	4.6	0.5	11.1	2.6	3.9	9.3	7.2
2012/13	3.0	-14.8	0.6	3.5	-0.3	2.0	3.3	0.7	2.7	-2.4	0.5	16.7	8.9	6.6
2013/14	5.9	-0.2	5.9	-0.7	-0.3	6.1	2.2	4.4	0.7	16.9	4.0	-0.9	3.1	6.9

Difference (*percentage points*)

	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	NT	YK	NU
2004/05	3.2	10.1	6.2	4.5	5.2	1.1	-1.0	7.5	17.0	22.7	11.2	5.5	10.3	7.0
2005/06	2.5	20.4	1.7	1.2	2.9	2.3	2.3	2.6	14.6	26.3	6.7	9.3	4.8	7.0
2006/07	3.4	-2.9	2.0	0.2	5.0	4.2	5.2	2.6	8.7	13.8	7.4	6.0	4.5	14.6
2007/08	0.8	17.1	-2.3	5.8	2.0	4.0	4.8	3.4	20.1	4.6	5.2	7.6	5.5	-8.0
2008/09	-2.8	24.3	-1.1	-3.0	-0.6	-0.4	-7.2	2.0	25.2	-8.4	-1.4	-0.8	4.4	3.3
2009/10	-1.4	14.0	1.7	1.8	-1.2	8.1	-3.9	-0.5	-4.3	11.3	-0.2	-0.3	2.0	-2.2
2010/11	0.4	5.9	-0.4	3.5	4.6	2.6	0.5	2.7	8.5	-3.1	0.8	-3.2	-0.2	0.5
2011/12	-2.3	7.5	0.7	0.6	1.4	-0.2	0.3	2.6	2.3	6.4	-1.0	1.0	3.6	0.2
2012/13	0.2	-3.9	-0.7	-0.8	-5.5	-3.9	0.6	0.4	0.8	-7.0	-2.2	7.2	1.6	-1.4
2013/14	2.1	-0.3	-3.1	-4.0	-2.1	1.1	0.0	1.4	-1.2	15.5	-0.6	-3.4	0.7	2.1

Sources: Federal/Provincial/Territorial Budget and Public Accounts documents; authors' calculations.

Table 5: Bias and Accuracy in Budget Forecasts of Revenue, 2004/05 to 2013/14

	Bias		Accuracy			Ratio: Total Overrun to 2013/14 Revenues
	Mean Error (*percent*)	Rank	Root Mean Square Error (*percent*)	Rank	Total Overrun ($M)	
Federal	0.6	2	2.2	1	14,361	5
Newfoundland and Labrador	**9.2**	14	13.1	12	5,669	81
Prince Edward Island	1.1	4	2.6	2	152	10
Nova Scotia	1.0	3	3.1	3	997	11
New Brunswick	1.2	5	3.5	5	630	8
Quebec	**1.9**	6	3.6	7	15,353	21
Ontario	0.1	1	3.5	6	512	0
Manitoba	**2.5**	8	3.2	4	2,507	18
Saskatchewan	**9.2**	13	13.1	13	7,717	66
Alberta	**8.2**	12	14.0	14	25,736	69
British Columbia	**2.6**	9	5.1	9	8,202	18
Northwest Territories	**2.9**	10	5.3	10	349	22
Yukon	**3.7**	11	4.7	8	272	23
Nunavut	**2.3**	7	6.3	11	269	17

Note: Bias results in bold font represent a statistically significant result at a 5 percent confidence level.

Sources: Federal/Provincial/Territorial Budget and Public Accounts documents; authors' calculations.

undershoots of spending and revenue together allows us to probe deeper into the nature of missed targets. Among other things, we can check if surprises on one side of a government's budget tend to correlate with surprises on the other.

The record of the past decade in Canada suggests they do. When we check if annual overshoots tend to be in the same direction – that is, did governments reporting larger-than-projected revenues also tend to report larger-than-expected spending? – the answer, as Table 6 shows, is that they did. In every jurisdiction but Nova Scotia and Nunavut, the relationship is positive. In six jurisdictions it exceeds the 0.55 figure that normal statistical tests say is significant, and British Columbia is not far below it.

This correlation is not consistent with traditional formulas for good macroeconomic management that stress letting automatic stabilizers work. Under a government following that advice, one would expect cyclical swings to push revenue and spending in opposite directions. Booms will raise revenue ahead of target, and will lower demand for spending on items such as social supports and economic stimulus. Busts will have the opposite effect. So the annual correlation between revenue and spending surprises will be negative.

Table 6: Correlation of Deviations, 2004/05 to 2013/14

	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	NT	YK	NU
Correlation of surprises	0.22	0.35	0.73	-0.12	0.33	0.81	0.57	0.03	0.72	0.70	0.45	0.61	0.14	-0.07
Rank	5	7	13	1	6	14	9	3	12	11	8	10	4	2

Note: The 10-year observation period makes the statistically significant level of correlation about 0.55 with a two tailed 10 percent significance test.
Sources: Federal/Provincial/Territorial Budget and Public Accounts documents; authors' calculations.

The fact that we do not find that result is not necessarily evidence of trouble. But another cyclical explanation for a positive correlation – that economic booms (or busts) both unexpectedly boost (or depress) revenue and generate unexpectedly high (or low) demand for public services – seems implausible. That kind of impact on demand for services would affect multi-year performance more than the annual measures we are investigating, since much of the higher or lower demand would affect capital spending, which is less subject to in-year surprises.

If that explanation for the positive correlation between surprises in many jurisdictions is unlikely, another candidate deserves attention: that governments might low-ball revenue in their budgets to leave room for in-year sprees. Worse yet would be manipulation of reported numbers. Fiscal critics's attention typically focuses more on budget-balance targets than on the accuracy of spending and revenues projections, which creates incentives to massage revenue or spending, or both, in the face of surprises, to achieve a predetermined bottom line. Because negative correlations are more consistent with traditional fiscal stabilization and positive correlations could result from less than admirable fiscal practices, we view the numbers recorded by Nova Scotia particularly, and also by Nunavut and Manitoba, as superior to the higher ones recorded by Quebec, Saskatchewan and Alberta.

Did Governments Improve Their Scores over the Past Decade?

The economic climate during the decade we are looking at changed abruptly with the 2008 crisis. The first half was generally more benign, featuring relatively steady growth. The second half was weaker and more uncertain. Was the changed environment associated with any systematic change in the tendency of Canadian governments to hit their budget targets?

The answer is encouraging: in general, Canadian governments' records during the second five years were better than those during the first five. We summarize the bias and accuracy scores for each government, separating the first and second halves of the decade, in Table 7. Since our concern is not whether spending (or revenue) is too high or too low in general, we treat biases up or down as equally problematic, so we compare biases in the two periods without regard to sign – in other words, we look at changes in the absolute values of the bias scores. Ten of the 14 senior governments recorded smaller spending biases over the 2009/10 – 2013/14 period than during the preceding five fiscal years. Averaging across jurisdictions, the absolute value of the bias among Canada's senior governments dropped from 3.2 to 1.5 percent from the first to the second half of the decade. Accuracy scores were also better in the second half of the decade, though the improvement in the national average was less impressive than it was for the bias measure.

Table 7: Improvements or Deteriorations in Accountability, 2004/05 to 2008/09 versus 2009/10 to 2014/15

Expenditures (*percent*)														
	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	NT	YK	NU	National Average
Bias: First 5 years	1.6	-1.7	1.3	1.8	2.9	1.3	2.4	2.2	7.3	5.3	2.7	4.7	5.9	7.0	3.2
Bias: Last 5 years	-1.0	-3.7	1.2	-0.2	0.4	1.9	-0.7	3.4	1.4	3.1	0.4	1.5	4.7	8.6	1.5
Difference	-0.6	2.0	-0.1	-1.6	-2.5	0.7	-1.7	1.1	-5.9	-2.1	-2.3	-3.2	-1.3	1.5	-1.7
Accuracy: First 5 years	4.0	2.7	1.9	2.2	3.3	1.4	3.4	2.5	8.8	6.5	2.9	4.9	7.7	7.6	4.3
Accuracy: Last 5 years	4.1	6.7	1.6	2.4	2.0	3.2	1.2	4.3	4.7	5.1	2.2	3.0	5.0	9.3	3.9
Difference	0.1	4.0	-0.2	0.2	-1.3	1.8	-2.2	1.8	-4.2	-1.4	-0.7	-1.9	-2.6	1.7	-0.4
Revenues (*percent*)															
	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	NT	YK	NU	National Average
Bias: First 5 years	1.4	13.8	1.3	1.7	2.9	2.2	0.8	3.6	17.1	11.8	5.8	5.5	5.9	4.8	5.6
Bias: Last 5 years	-0.2	4.6	0.9	0.2	-0.5	1.5	-0.5	1.3	1.2	4.6	-0.6	0.2	1.5	-0.2	1.0
Difference	-1.2	-9.2	-0.4	-1.5	-2.4	-0.7	-0.3	-2.3	-15.9	-7.2	-5.2	-5.3	-4.4	-4.6	-4.6
Accuracy: First 5 years	2.7	16.8	3.2	3.6	3.6	2.8	4.7	4.1	18.0	17.2	7.1	6.5	6.3	8.8	7.5
Accuracy: Last 5 years	1.5	7.8	1.7	2.5	3.4	4.2	1.8	1.8	4.4	9.7	1.2	3.9	2.0	1.5	3.4
Difference	-1.2	-9.0	-1.5	-1.1	-0.2	1.4	-2.9	-2.3	-13.6	-7.6	-5.9	-2.6	-4.3	-7.3	-4.2

Sources: Federal/Provincial/Territorial Budget and Public Accounts documents; authors' calculations.

The revenue side shows an even more marked improvement. All governments recorded smaller revenue biases in the second half of the decade than in the first half, and the average bias across the country fell from 5.6 to 1.0 percent. Except for Quebec, all governments improved their revenue accuracy scores, and the average root square error across the country fell from 7.5 percentage points in the first half of the decade to 3.4 percentage points during its second half.

Policy Recommendations

Our survey highlights some good news and some bad news. On the good side, we note improvements

in financial reporting by a number of jurisdictions, and a tendency for results to conform more closely to budget votes in more recent years. But there is also considerable bad news, and we close with a number of suggestions that could give Canadians better information on, and ideally control over, the way their federal, provincial and territorial governments manage public funds.

Budgets Should Match Public Accounts

It is regrettable that, despite improvements in Saskatchewan and Yukon, and a prospective improvement in Alberta, only six senior governments present their legislators and citizens with one set of prominent budget numbers suitable for comparison to the audited financial statements in their public accounts in 2014. In the remaining eight, our non-expert reader would find it hard or impossible to make what should be a simple comparison of projections and results. In our modern climate of rising expectations for accountability, a director of a private company who accepted such poor information – and increasingly few would – would run a serious risk of being replaced or sued by unhappy shareholders.

Legislators in the jurisdictions with deficient budget presentations should follow the road most recently travelled by Saskatchewan and Yukon, and returned to by Alberta, and insist on one set of headline figures, prepared on the same PSAB-consistent basis, in the principal financial documents. Once they have it, additional documentation – including in-year updates on the evolving situation and reconciliation tables explaining differences between projections and outcomes – would be more helpful.

Estimates Should Match Budget and Public Accounts, or Be Reconciled

A further step that would be desirable in every jurisdiction is spending estimates that are presented on, or include reconciliations with, PSAB-consistent accounting principles. Most provinces present estimates on an accrual accounting basis. A handful present their estimates consistently with their budgets and public accounts or with a reconcilation table. But they are the exception, when they ought to be the rule.[6] In much of the country, a legislator might respond to demands to bring results closer into line with budget projections by protesting that she or he was obliged to vote on estimates without knowing how they fit, or not, with the budget plan. Responsibility to insist on estimates prepared on the same accounting basis as public accounts – and, we hope, budgets – ultimately lies with legislators themselves.

On the advice of former department of finance officials, the Parliamentary Budget Officer and the Auditor General of Canada, the House of Commons Standing Committee on Government Operations and Estimates released a 2012 report (Canada 2012) recommending that the federal government consider using accrual accounting in the estimates process. The committee later decided not to follow this course of action after consulting with officials in the Treasury Board, who suggested that parliamentarians find cash-based appropriations easier to understand.

We are not convinced by this explanation. If governments determine that a separate accounting process is more desirable for appropriation decisions in legislatures, however, then we strongly urge that the estimates contain a prominently displayed and user-friendly reconciliation with the budget. The

6 The federal government does not reconcile its estimates to the budget in the estimates document. It does reconcile the results in the annual Reports on Plans and Priorities submitted by each government department and in an extra volume of the Public Accounts at the end of year.

task of keeping fiscal policy on track as economic circumstances change and governments react to political developments will be much easier if legislators can see how the spending they are asked to approve in the estimates matches – or not – the budget they approved.

Government Committees Need Revitalizing

Although the connection with better financial reporting is indirect, it is reasonable to think that more powerful legislative committees dealing with public finances would aid transparency and accountability. Consider the fraught question of whether, and how, to include reserves for revenue shortfalls or contingent spending in budgets. When governments know they may face a commodity-related downturn in revenues, or may face demands arising from events such as a natural disaster, including such reserves in the fiscal plan helps legislators protect the bottom line.

The objection to such reserves is that they provide cover for spending that might not otherwise pass inspection. On balance, we favour including reasonable contingency reserves in budgets, provided that better parliamentary scrutiny forestalls their use as slush funds. More powerful public accounts or estimates committees could also strengthen the oversight process, analyzing deviations from plan and responding as appropriate.

The "deemed" reported rule in the House of Commons allows estimates that appropriate government spending, which are tabled and sent to the relevant committees for review, to come back to the House for vote and avoid delay if the relevant committees have not reviewed or approved them. This rule allows many committees to skip this important oversight task. It is not clear how often this happens,[7] but it is troubling that it occurs at all. If it is not possible to ensure that the committees do their work, then the invocation of the "deemed" rule should trigger a public announcement, so that Canadians generally learn when spending appropriations pass without appropriate committee-level review.

Historically, at the back end of the oversight process, public accounts committees provided key oversight of public accounts documents and governments' financial management in Westminster-style parliaments. These aspects of parliamentary government do not get as regular attention as they deserve, but one survey a decade ago (Malloy 2004) noted a decline in the importance of such committees, and we do not think that trend has reversed since. Regular reports from such bodies that explored in-year deviations from plans would strengthen parliamentary oversight of government decisions.

Year-End Results Must be Timely

Finally, we underline the importance of timely publication of results. The importance of knowing where you are, in figuring out where you are going, is a truism: every organization needs recent results to make its financial plans. In addition, timely public accounts will promote accuracy in the preliminary prior-year figures in budgets.

Table 1 showed wide variation in when senior governments release their public accounts. The fiscal year ends on March 31, and there is little reason why financial results should not be audited and published by June 30 – the end of the next quarter. Yet most senior governments receive their auditors' approvals and publish their financial statements far later than this. Prince Edward Island, for example,

7 In his testimony to the Committee on Government Operations and Estimates, the Parliamentary Budget Officer at that time, Kevin Page, speculated that upward of $100 billion worth of spending appropriations each year might pass without committee-level review.

did not close its 2013/14 books until January of 2015. On the good-performance end of the scale, Alberta's legislation requires its public accounts to appear before the end of June. Saskatchewan also publishes quickly. Other jurisdictions should meet the same standard.

CONCLUSION

Transparency and accountability have many dimensions. In a world where standards are rising, it is important for governments to keep pace. While Canadian governments have done much to improve their reporting of, and stewardship of, public money as measured in this survey, there is still ample room to do better. An intelligent and motivated Canadian should be able, with reasonable effort, to get a clear picture of what governments are planning to raise and spend, what they actually raised and spent, and how the results compared to the plans.

While most of Canada's senior governments came closer to their budget targets for the most recent five years than they had in the previous five, spending over-runs have been large over the past decade, and the correlation between spending and revenue surprises in most jurisdictions does not testify to good macroeconomic management. Canada's senior governments can improve their financial reporting and their adherence to targets, and legislators and voters should hold them accountable for doing so.

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